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ACTION EB-00

INFO	LOG-00	NP-00	AID-00	CEA-01	CIAE-00	COME-00	CTME-00
	DINT-00	DODE-00	DOEE-00	ITCE-00	DOFE-00	WHA-00	SRPP-00
	EXME-00	E-00	FAAE-00	UTED-00	VC-00	FRB-00	H-01
	TEDE-00	INR-00	IO-00	ITC-01	LAB-01	L-00	VCE-00
	AC-01	DCP-01	NSAE-00	NSCE-00	OES-00	OIG-03	OMB-01
	OPIC-01	PM-00	PRS-00	ACE-00	SP-00	IRM-00	SSO-00
	SS-00	STR-00	TEST-00	TRSE-00	USIE-00	EPAE-00	PMB-00
	DRL-01	G-00	NFAT-00	SAS-00	/012W		

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R 101504Z FEB 03
FM AMEMBASSY SAN JOSE
TO SECSTATE WASHDC 4815
INFO AMEMBASSY CARACAS
AMEMBASSY MEXICO

UNCLAS SECTION 01 OF 02 SAN JOSE 000433

E.O. 12958: N/A
TAGS: EPET, ENRG, ECON, ENIV, ETRD, CS
SUBJECT: COSTA RICA FEELS PINCH FROM VENEZUELAN STRIKE

REF: A. 2002 SAN JOSE 1438
 B. 3004

SUMMARY

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1. FEELING THE EFFECTS OF THE NINE-WEEK STRIKE IN VENEZUELA AND THE POSSIBILITY OF WAR IN IRAQ, COSTA RICA'S STATE ENERGY DISTRIBUTOR (RECOPE) HAS DEVELOPED AN EMERGENCY PLAN TO DEAL WITH A POTENTIAL FUEL SHORTAGE. RECOPE'S EMERGENCY PLAN HAS ALREADY BEEN UPDATED IN THE LAST WEEK TO REFLECT A MORE SEVERE RESPONSE TO THE DISRUPTION IN THE PETROLEUM MARKET. THE FIRST STAGE, WHICH HAS ALREADY BEEN IMPLEMENTED, IS TO FIND SOURCES OF FUEL OUTSIDE OF VENEZUELA. BEFORE THE OIL STRIKE BEGAN, VENEZUELA SUPPLIED 55 PERCENT OF COSTA RICA'S FUEL. THE SECOND STAGE, WHEN FUEL PRICES REACH 40 USD PER BARREL, INVOLVES RESTRICTING THE USE OF PRIVATE VEHICLES ACCORDING TO LICENSE PLATE NUMBER, ALONG WITH INCREASING FUEL RESERVES AND IMPLEMENTING A PUBLIC RELATIONS CAMPAIGN TO DISCOURAGE FUEL CONSUMPTION. THE THIRD STAGE IS FUEL

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RATIONING, WHERE VEHICLES WILL BE TAKEN OUT OF CIRCULATION ACCORDING TO A HIERARCHY OF NEED. FUEL PRICES ARE CLIMBING AND COSTA RICAN CITIZENS ARE PAYING THE PRICE. THE PRESIDENT OF RECOPE FEELS CONFIDENT THAT COSTA RICA WILL BE ABLE TO MEET ITS LOCAL FUEL DEMANDS, BUT WITH THE POSSIBILITY OF WAR IN IRAQ, THE PUBLIC CAN EXPECT MORE FUEL HIKES IN THE NEAR FUTURE. END SUMMARY.

EMERGENCY PLAN

2. THE PRIMARY PHASE OF COSTA RICA'S EMERGENCY PLAN HAS ALREADY BEEN IMPLEMENTED. THIS FIRST STEP WAS TAKEN WHEN THE PRICE OF FUEL REACHED 31 USD PER BARREL (THE CRITERIA WAS THAT THE PRICE OF FUEL APPROACH 34 USD PER BARREL). AS A RESULT OF THIS FIRST SCENARIO, COSTA RICA HAD TO FIND OTHER SOURCES FOR ITS FUEL SUPPLY SUCH AS COLOMBIA, THE UNITED

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STATES, EU COUNTRIES, BRAZIL, AND TRINIDAD AND TOBAGO. BEFORE THE OIL STRIKE IN VENEZUELA, THAT COUNTRY SUPPLIED 55 PERCENT OF COSTA RICA'S FUEL. IF OIL PRICES REACH 40 USD PER BARREL, THE SECOND ALERT IS ACTIVATED AND COSTA RICA WILL BEGIN RESTRICTING THE USE OF PRIVATE VEHICLES ACCORDING TO LICENSE PLATE NUMBER. THIS SECOND STAGE WAS RECENTLY UPDATED BY RECOPE IN RESPONSE TO A MORE AUSTERE FUEL SHORTAGE SCENARIO. THE SECOND PHASE ALSO INCLUDES STORING FUEL IN TANKS AT THE COUNTRY'S STATE-OWNED ELECTRICITY PROVIDER (ICE) TO INCREASE ITS FUEL RESERVES, AND INSTITUTING A PUBLIC RELATIONS PROGRAM TO REDUCE FUEL CONSUMPTION. THE THIRD SCENARIO INVOLVES MORE SERIOUS RATIONING. WHEN THE PRICE OF FUEL REACHES 50 USD PER BARREL, VEHICLES WILL BE TAKEN OUT OF CIRCULATION ACCORDING TO A HIERARCHY OF NEED. RECOPE HAS DETERMINED THAT VEHICLE RESTRICTIONS WILL APPLY FIRST TO PRIVATE AND COMPANY VEHICLES, THEN TO PUBLIC BUSES AND TAXIS, AND IN THE CASE OF A PROLONGED CRISIS, VEHICLES RELATED TO THE MANUFACTURING AND INDUSTRIAL SECTORS. THE LAST LEVEL TO BE AFFECTED WILL BE HOSPITAL AND EMERGENCY VEHICLES.

FUEL CONSUMPTION IN COSTA RICA

3. COSTA RICA CONSUMES 44,000 BARRELS OF HYDROCARBON FUEL A DAY FOR ALL OF ITS FUEL NEEDS, WITH AN ANNUAL COST OF USD 500 MILLION. RECOPE, A PARASTATAL COMPANY, IS IN CHARGE OF PETROLEUM DISTRIBUTION, BUT NO LONGER REFINES ITS OWN FUEL BECAUSE ITS REFINERY HAS FALLEN INTO DISREPAIR. THEREFORE, RECOPE MUST IMPORT ALL OF ITS PETROLEUM PRODUCT NEEDS SUCH AS DIESEL, GASOLINE, MARINE FUEL, JET FUEL, COOKING GAS,

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KEROSENE, AND PETROLEUM USED IN CEMENT AND ASPHALT
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PRODUCTION.

4. PETROLEUM FUELS ARE PRIMARILY USED IN THE TRANSPORTATION SECTOR, WHICH IS PASSING ON ESCALATING PRICES TO COSTA RICAN CITIZENS, MAINLY THROUGH HIGHER BUS FARES. HOWEVER, ALTHOUGH 75 PERCENT OF COSTA RICANS TAKE PUBLIC TRANSPORTATION AND ONLY 25 PERCENT DRIVE THEIR OWN VEHICLES, THE RATE OF CAR OWNERSHIP HAS BEEN INCREASING ABOUT EIGHT PERCENT PER YEAR BECAUSE OF THE EASING OF IMPORT TARIFFS.

RISING PRICES AND INCREASING UNCERTAINTIES

5. A GAS PRICE INCREASE WAS JUST APPROVED BY THE NATIONAL PUBLIC SERVICE REGULATORY AUTHORITY, ARESEP, WHICH RAISED THE PRICE OF GAS TO 235.50 COLONES PER LITER, OR USD 2.34 PER GALLON. ARESEP WILL SOON MAKE A DECISION ON ANOTHER PRICE HIKE WHICH WOULD BRING THE PRICE OF GAS UP TO USD 2.61 PER GALLON, AN ELEVEN PERCENT INCREASE FROM JANUARY. THE PRESIDENT OF RECOPE HAS ALSO ASKED ARESEP FOR MORE FLEXIBILITY TO INCREASE LOCAL GAS PRICES, WHICH WILL MOST LIKELY BE PUT INTO EFFECT IF WAR BREAKS OUT IN IRAQ. THE PRESIDENT OF RECOPE SAID THAT THE COUNTRY'S FUEL SUPPLY WOULD LAST 20-25 DAYS, BUT IN THE CASE OF A WAR IN IRAQ RECOPE WOULD NEED TO STORE FUEL FOR 10-12 MORE DAYS.

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INFO	LOG-00	NP-00	AID-00	CEA-01	CIAE-00	COME-00	CTME-00
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	EXME-00	E-00	FAAE-00	UTED-00	VC-00	FRB-00	H-01
	TEDE-00	INR-00	IO-00	ITC-01	LAB-01	L-00	VCE-00
	AC-01	NSAE-00	NSCE-00	OES-00	OIG-03	OMB-01	OPIC-01
	PM-00	PRS-00	ACE-00	SP-00	IRM-00	SSO-00	SS-00
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6. SOME FUEL SHORTAGES HAVE OCCURRED IN COSTA RICA RESULTING FROM THE VENEZUELAN OIL STRIKE. CRUISE SHIPS AND A CHIQUITA TRANSPORT SHIP HAVE BEEN INCONVENIENCED BY LACK OF FUEL AT PORTS ON THE CARIBBEAN AND PACIFIC COASTS, CAUSING CONCERN FROM THE COMMERCIAL SECTOR. THE PRESIDENT OF RECOPE STATED THAT THERE WOULD BE A MINIMAL LACK OF FUEL SUPPLY FOR FOREIGN

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SHIPS, BUT ASSURED THE COUNTRY THAT THERE WAS PLENTY OF FUEL TO SATISFY LOCAL DEMAND.

COMMENT

7. ALTHOUGH OIL PRODUCTION IN VENEZUELA COULD GET BACK TO PRE-STRIKE LEVELS IN THE NEXT SIX WEEKS, THE THREAT OF WAR WITH IRAQ LOOMS LARGE OVER THE FUEL SECTOR. AN ANALYSIS BY RECOPE SHOWS THAT IF A MILITARY CAMPAIGN WITH IRAQ LASTS MORE THAN SIX MONTHS, THE PRICE OF PETROLEUM COULD REACH 60 USD PER BARREL. THE IMPACT OF SUCH AN INCREASE WOULD DEAL A HEAVY BLOW TO COSTA RICANS WHO ARE INCREASINGLY PAYING HIGHER

BUS FARES AND GASOLINE PRICES, AND TO THE ECONOMY AS A WHOLE. A POSSIBLE WAR IN IRAQ WOULD ALSO NEGATIVELY AFFECT THE RECOVERING TOURISM INDUSTRY, COSTA RICA'S SECOND LARGEST SOURCE OF FOREIGN INVESTMENT. END COMMENT.

BARNES

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